

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Marquette County Transit Authority</b>	County <b>Marquette</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>12/22/04</b>	Date Accountant Report Submitted to State: <b>4/7/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Makela, Toutant, Hill, &amp; Nardi, P.C.</b>			
Street Address <b>201 W. Bluff Street</b>	City <b>Marquette</b>	State <b>Mi</b>	ZIP <b>49855</b>
Accountant Signature 		Date <b>4/7/05</b>	

Audited Basic Financial Statements  
Required Supplementary Information  
and Other Information

**MARQUETTE COUNTY TRANSIT AUTHORITY**  
**MARQUETTE, MICHIGAN**

September 30, 2004

Audited Basic Financial Statements  
Required Supplementary Information  
and Other Information

**MARQUETTE COUNTY TRANSIT AUTHORITY**

Year Ended September 30, 2004

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## Management's Discussion and Analysis

### Using this Annual Report

This annual report includes a series of financial statements for the Marquette County Transit Authority (Authority). The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a long-term view of the Authority's finances. The Authority implemented the GASB #34 financial reporting model for the fiscal year ended September 30, 2004.

### The Authority as a Whole

The Authority's current assets as of September 30, 2004, increased by nearly \$1.5 million from the prior year due to the receipt of the proceeds of a loan from the MDOT State Infrastructure Bank which will be used to pay costs of a new facility currently under construction. The increase in Net Capital Assets is due to the partial construction of the new facility.

The increase in Current and Long-Term Liabilities is due to construction payments due at the end of fiscal year 2004 and a loan from the State Infrastructure Bank, respectively. The State Infrastructure Loan will be repaid with grants that have been approved, but are not yet available to the Authority for payment on the loan.

In a condensed format, the table below reflects the financial position of Marquette County Transit Authority.

		September 30	
		2004	2003
Current Assets	\$	2,314,744	\$ 834,584
Net Capital Assets		5,363,965	1,779,536
<b>TOTAL ASSETS</b>		<b>7,678,709</b>	<b>2,614,120</b>
Total Current Liabilities		1,170,423	744,085
Long-Term Liabilities		1,760,419	74,099
<b>TOTAL LIABILITIES</b>		<b>2,930,842</b>	<b>818,184</b>
Net Assets			
Invested in Capital Assets, net of related debt		3,589,866	1,692,283
Restricted for capital project		1,700,000	
Unrestricted (Deficit)		(541,999)	103,653
<b>TOTAL NET ASSETS</b>		<b>4,747,867</b>	<b>1,795,936</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$</b>	<b>7,678,709</b>	<b>\$ 2,614,120</b>

The current level of unrestricted net assets shows a deficit of \$541,999 or about 19.5 percent of expenditures. The Authority is currently developing a plan to eliminate the deficit and increase unrestricted net assets.

The following table reflects the results of operations of the Marquette County Transit Authority.

	Year Ended September 30	
	2004	2003
Operating Revenues	\$ 280,084	\$ 275,844
Non-Operating Revenues - Local	654,876	626,432
Non-Operating Revenues - State	1,051,639	1,091,541
Non-Operating Revenues - Federal	260,846	256,931
<b>TOTAL REVENUES</b>	<b>2,247,445</b>	<b>2,250,748</b>
Operating Expenses	2,775,272	2,771,198
<b>LOSS BEFORE CONTRIBUTIONS</b>	<b>(527,827)</b>	<b>(520,450)</b>
Capital asset additions funded with state and federal capital grants	3,479,758	675,342
<b>INCREASE IN NET ASSETS</b>	<b>2,951,931</b>	<b>154,892</b>
Net assets at beginning of year	1,795,936	1,641,044
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 4,747,867</b>	<b>\$ 1,795,936</b>

### Operations of the Authority

The Authority's revenues for 2004 decreased by approximately \$3,303. The Authority's revenues consist of state (46%) and federal (11%) operating grants, and a local millage (29%). Passenger and contract fares provide approximately 12 percent of revenue. Increases in federal, local, and fare-box revenue were offset by a significant reduction in state and local bus operating assistance, resulting in a net revenue reduction of 0.14 percent compared to the previous year.

Expenses increased by about \$4,074 or 0.14 percent for the year ended September 30, 2004. Increases in health insurance costs, fuel costs, and the cost of maintaining an aging fleet, were offset by an aggressive review of the budget by the Board of Directors. This resulted in the elimination of a number of administrative expenses and a paring of unproductive hours on various fixed routes and other service areas.

### Economic Factors

The Authority relies heavily on state and federal revenues, and the local millage. Given the condition of the State of Michigan's financial challenges, and the local operating assistance decreases experienced by the Authority in recent years, further decreases in state funding in fiscal year 2005 are expected. The Authority received voter approval for an increase in the millage levy from .4857 mills to .6000 mills for fiscal year 2005. In fiscal year 2005, the Authority will extensively review its budget to develop a plan to eliminate the deficit. Administrative expenses and areas of under utilized services will be reduced, but it is likely that various service reductions may be required.

### Budget Review

On the following page is the Authority's operating budget for the year ended September 30, 2004. The following analysis reflects the budget adopted at the beginning of the year, the last budget amendment of the year, and the actual expenditures and revenues at year end. At the end of each quarter of the fiscal year, the budget is reviewed and adjustments are made to reflect operations more accurately.

### Budget Expenditures

During the year, the budget was reviewed to identify areas of savings. Administrative expenses ended the year \$6,202 less than budgeted. Reductions occurred in the area of communications, promotions, travel, and organizational memberships.

Operational costs exceeded the budget by \$277,413. This amount, over the budget, is primarily due to depreciation not being budgeted for operational costs. Excluding depreciation, expenses would have been less than the amount budgeted. This reduction consisted of eliminating hours on routes or services not being utilized by many passengers. This minimized the impact on service to the public.

Maintenance costs also exceeded the budget by \$24,061. This was the result of an aging fleet requiring more frequent and more expensive repairs. In recent years, the Authority has been using its capital grants to develop a new operational facility. With the completion of the facility in the next year, the priority for capital grants can be directed toward bus replacement.

# **Fiscal Year 2004 Operating Budget--As Amended and Year End Actual**

<b><u>ADMINISTRATION</u></b>	<b>Adopted FY 2004 Budget</b>	<b>Amended 6/30/04 Budget</b>	<b><u>Variance</u></b>	<b>Actual 9/30/04 Expenses</b>	<b><u>Variance</u></b>
Salaries	\$ 231,200	\$ 231,200		\$ 228,620	\$ (2,580)
Fringe Benefits	116,000	116,000		116,675	675
Legal Services	500	500			(500)
Auditing Services	4,900	4,900		4,900	
Materials & Supplies	10,700	10,700		13,542	2,842
Telephone	8,200	8,200		6,577	(1,623)
Other Corp Insurance	6,800	5,800	\$ (1,000)	5,167	(633)
Travel & Training	3,700	4,900	1,200	5,364	464
Advertising & Promotion	14,000	14,000		12,416	(1,584)
Computer	8,400	10,900	2,500	8,303	(2,597)
Board Per Diem	11,000	11,000		11,259	259
Miscellaneous	7,000	7,000		6,075	(925)
<b>Total Administration</b>	<b>422,400</b>	<b>425,100</b>	<b>2,700</b>	<b>418,898</b>	<b>(6,202)</b>
<b><u>MAINTENANCE</u></b>					
Maintenance Labor	155,800	161,800	6,000	163,016	1,216
Maintenance Fringe Benefits	79,000	78,000	(1,000)	72,852	(5,148)
Repair Service	55,000	55,000		55,555	555
Maintenance Supplies	8,400	6,400	(2,000)	5,236	(1,164)
Repair Parts	101,100	101,100		130,627	29,527
Electricity - Bus Plug-in	3,500	3,500		2,575	(925)
<b>Total Maintenance</b>	<b>402,800</b>	<b>405,800</b>	<b>3,000</b>	<b>429,861</b>	<b>24,061</b>
<b><u>OPERATIONS</u></b>					
Drivers' Wages	834,000	834,000		808,110	(25,890)
Drivers' Fringe Benefits	322,000	322,000		311,613	(10,387)
Dispatch Labor	91,800	91,800		92,801	1,001
Bus Wash Wages	5,700	6,500	800	9,113	2,613
Radio System Fees	12,300	12,300		13,500	1,200
Employee Uniforms	10,000	10,000		7,793	(2,207)
Fuel for Vehicles	142,200	142,200		141,602	(598)
Tires & Tubes	15,600	20,600	5,000	22,642	2,042
Lubricants	8,700	14,700	6,000	12,329	(2,371)
Safety	6,100	6,100		6,432	332
Building & Garage Supplies	10,500	10,500		8,473	(2,027)
Fleet Insurance	96,800	85,800	(11,000)	84,555	(1,245)
Ishpeming Facility Operations	12,100	10,600	(1,500)	8,509	(2,091)
Rent	68,200	82,000	13,800	81,994	(6)
Interest				8,294	8,297
Depreciation				308,753	308,753
<b>Total Operations</b>	<b>1,636,000</b>	<b>1,649,100</b>	<b>13,100</b>	<b>1,926,513</b>	<b>277,413</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,461,200</b>	<b>\$ 2,480,000</b>	<b>\$ 18,800</b>	<b>\$ 2,775,272</b>	<b>\$ 295,272</b>

## Budget Revenues

As of September 30, 2004, a number of fare line items were below the budgeted amounts due to lower ridership on some routes, as well as, overly optimistic adjustments on the June 30, 2004, quarterly budget amendment. State operating assistance was significantly below budget despite an adjustment at June 30. Lower state operating assistance is due to state reductions in the percentage provided to local systems. Additionally, the Authority bases the state operating assistance budget on an estimate submitted nine months prior to the adoption of the Authority's budget. If the adopted budget has lower expenses than the estimated budget, state-operating assistance will be less since it is based on a percentage of eligible expenses. Federal operating assistance is also based on a percentage of eligible expenses. While the percentage provided has been static in recent years, lower revenue will result when expenses are less than the estimated budget submitted for the grant.

<b><u>REVENUES</u></b>	<b>Adopted FY 2004 Budget</b>	<b>Amended FY 2004 Budget</b>	<b>Variance</b>	<b>Actual FY 2004 Revenues</b>	<b>Variance</b>
Marquette Routes	\$ 27,400	\$ 27,400		\$ 26,643	\$ (756)
Ishpeming Routes	27,500	29,000	\$ 1,500	27,785	(1,215)
K I Sawyer Routes	14,800	18,300	3,500	17,796	(504)
Trowbridge Routes	8,100	8,400	300	8,115	(285)
Shopper's Shuttle	3,900	4,000	100	4,250	250
Negaunee Shuttle	1,100	1,100		727	(373)
Trolley Fares	700	700		1,108	408
Marquette City Small Bus	18,000	19,900	1,900	20,675	775
Ishpeming Small Bus	9,300	9,800	500	10,375	575
Out-County Small Bus	35,700	35,700		30,591	(5,109)
Special Service Fares	1,200	1,700	500	3,119	1,419
Special Contract Fares	112,500	112,500		122,131	9,632
Freight	1,000	1,000		906	(94)
Charter	12,600	16,600	4,000	19,171	2,571
Trolley Charter	5,800	5,800		4,905	(895)
Advertising		2,400	2,400	2,400	
MTC Administration Fee	5,800	5,800		6,163	363
Interest				2,643	2,643
Miscellaneous	400	400		620	220
Inter-city Ticket Commissions	20,000	20,000		16,158	(3,842)
Ad Valorem Tax	642,600	622,200	(20,400)	626,892	4,692
State Form Operating Assistance	1,110,100	1,070,400	(39,700)	997,765	(72,635)
State Special Services Grant	56,100	54,600	(1,500)	53,875	(725)
Federal RTAP Grant	3,500	3,000	(500)	2,172	(828)
Bus Rehabilitation - State	17,400	17,400			(7,880)
Federal Operating Assistance	266,400	277,500	11,100	258,674	(18,826)
Capital Grant Administration	1,200		(1,200)		
Prior year revenue adjustments				(18,214)	(18,214)
<b>TOTAL REVENUES</b>	<b>\$ 2,403,100</b>	<b>\$ 2,365,600</b>	<b>\$ (37,500)</b>	<b>\$ 2,247,445</b>	<b>\$ (108,633)</b>

### Capital Asset and Debt Administration

As of September 30, 2004, the Authority had \$6,760,294 in capital assets purchased with state and federal grants, and \$703,965 purchased with Authority funds. The capital assets included buildings and land of \$4,763,577 and vehicles and other equipment totaling \$2,700,683. The Authority had a balance of \$74,099 to pay on a State Infrastructure Bank Loan for an Ishpeming operations facility. The Authority has an additional State Infrastructure Loan in the amount of \$1,700,000 to finance the ongoing construction of a new Marquette area operations facility. This loan, including interest, will be paid off entirely with state and federal grants, which are approved for the Authority, but from which reimbursements cannot yet be requested.

### Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the:

Marquette County Transit Authority  
1325 Commerce Drive  
Marquette, Michigan 49855  
(906) 225-1283  
[marqtran@miuplink.net](mailto:marqtran@miuplink.net)



## **REPORT OF INDEPENDENT AUDITORS**

Board of Directors  
Marquette County Transit Authority  
Marquette, Michigan

We have audited the accompanying financial statements of Marquette County Transit Authority (Authority) as of and for the years ended September 30, 2004, 2003, and 2002, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette County Transit Authority as of September 30, 2004, 2003, and 2002, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as of September 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2004, on our consideration of the Marquette County Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Board of Directors

Management's discussion and analysis on pages one through six is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplemental and compliance schedules, the schedule of expenditures of federal and state awards, and statistical tables listed in the table of contents are presented for purposes of additional analysis as required by the Michigan Department of Transportation and by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Makelo, Tautant, Hill & Nardi, P.C.*

December 22, 2004

# MARQUETTE COUNTY TRANSIT AUTHORITY

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	September 30		
	2004	2003	2002
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 690,955	\$ 355,267	\$ 49,319
Accrued interest	4,808		
Due to R-Tran	26,292	32,524	32,524
Due to state of Michigan	177,983	85,336	30,963
Due to federal government	939		
Accrued expenses:			
Salaries and wages	51,866	40,561	37,783
Compensated absences	182,079	196,347	189,700
Unearned revenue	21,821	20,896	19,735
Current portion of debt--due within one year	13,680	13,154	12,648
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,170,423</b>	<b>744,085</b>	<b>372,672</b>
<b>LONG-TERM LIABILITIES</b>			
Notes payable--due in more than one year	1,760,419	74,099	87,253
<b>TOTAL LIABILITIES</b>	<b>2,930,842</b>	<b>818,184</b>	<b>459,925</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,589,866	1,692,283	1,327,655
Restricted for capital project	1,700,000		
Unrestricted (deficit)	(541,999)	103,653	313,389
<b>TOTAL NET ASSETS</b>	<b>4,747,867</b>	<b>1,795,936</b>	<b>1,641,044</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,678,709</b>	<b>\$ 2,614,120</b>	<b>\$ 2,100,969</b>

See notes to financial statements.

# STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

## MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30		
	2004	2003	2002
Operating revenues (Schedule 1)	\$ 280,084	\$ 275,844	\$ 350,114
Operating expenses (Schedule 2)	<u>2,775,272</u>	<u>2,771,198</u>	<u>2,630,951</u>
OPERATING LOSS	(2,495,188)	(2,495,354)	(2,280,837)
Non-operating revenues--local (Schedule 3a)	654,876	626,432	618,092
Non-operating revenues--state and federal (Schedule 3b)	<u>1,312,485</u>	<u>1,348,472</u>	<u>1,340,071</u>
LOSS BEFORE CONTRIBUTIONS	(527,827)	(520,450)	(322,674)
Capital Contributions:			
Capital asset additions funded with state and federal capital grants	<u>3,479,758</u>	<u>675,342</u>	<u>782,186</u>
INCREASE IN NET ASSETS	2,951,931	154,892	459,512
Net assets at beginning of year	<u>1,795,936</u>	<u>1,641,044</u>	<u>1,181,532</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,747,867</u>	<u>\$ 1,795,936</u>	<u>\$ 1,641,044</u>

See notes to financial statements.

# STATEMENTS OF CASH FLOWS

## MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30		
	2004	2003	2002
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 299,625	\$ 309,855	\$ 328,701
Cash operating grants received from other governments	2,092,820	1,692,647	1,838,968
Cash received from interest	2,643	2,458	5,639
Cash paid for interest	(4,060)	(3,996)	(4,482)
Cash paid to employees for services	(1,304,624)	(1,275,944)	(1,297,953)
Cash paid to suppliers of goods and services	(717,791)	(788,856)	(911,556)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>368,613</b>	<b>(63,836)</b>	<b>(40,683)</b>
<b>CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Receipts from capital grants	3,479,763	675,344	782,186
Proceeds from borrowing	1,831,980		
Principal repayments on long-term debt	(145,134)	(12,648)	(12,161)
Payments for capital acquisitions	(3,895,303)	(675,575)	(766,959)
<b>NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>1,271,306</b>	<b>(12,879)</b>	<b>3,066</b>
<b>CASH FLOWS PROVIDED (USED) INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investment securities	36,865	64,973	72,459
<b>NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>	<b>36,865</b>	<b>64,973</b>	<b>72,459</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,676,784</b>	<b>(11,742)</b>	<b>34,842</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>79,494</b>	<b>91,236</b>	<b>56,394</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,756,278</b>	<b>\$ 79,494</b>	<b>\$ 91,236</b>
<b>Net Operating Loss</b>	<b>\$ (527,828)</b>	<b>\$ (520,450)</b>	<b>\$ (322,674)</b>
Adjustments to reconcile net operating loss to cash provided by operating activities:			
Depreciation	308,753	323,595	281,629
Loss on disposal of asset	2,121		
(Increase) Decrease in:			
Trade accounts receivable	(5,177)	8,239	4,481
Due from federal government	269,475	(197,728)	(47,396)
Due from state of Michigan	(182,710)	(37,689)	(25,743)
Due from local units	66,054	(18,611)	(14,534)
Inventory	(5,901)	(10,702)	10,561
Prepaid expenses	18,016	(10,606)	3,270
Deposit in premium stabilization account		29,210	10,790
Increase (Decrease) in:			
Accounts payable	335,687	305,948	8,911
Due to federal government	939		
Due to state of Michigan	92,646	54,373	30,963
Due to R-Tran	(6,232)		(2,900)
Accrued expenses	1,845	9,425	22,123
Unearned revenue	925	1,160	(164)
<b>NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 368,613</b>	<b>(63,836)</b>	<b>(40,683)</b>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### MARQUETTE COUNTY TRANSIT AUTHORITY

September 30, 2004

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Marquette County Transit Authority (Authority) was created by an Interlocal Agreement under Act 7 of the Public Acts of 1967 on October 1, 1985, by the County of Marquette; the cities of Ishpeming and Marquette; the Marquette Transit Authority; and the Ishpeming Transportation Authority to provide a cost effective and efficient public transportation system through the consolidation of the entities into a unified county system. The separate consolidated legal entity was designated as the Marquette County Transit Authority.

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies followed by the Authority are described below.

In June 1999, the GASB issued Statement No. 34 (Statement), *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Some of the significant changes in the Statement include the following:

For the first time the financial statements include:

1. A Management's Discussion and Analysis (MD&A) section, which provides an analysis of the Authority's overall financial position and results of operations.
2. Financial statements prepared using full accrual accounting for all of the Authority's activities.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has elected to implement the provisions of the Statement in the current year.

#### Reporting Entity

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP.

## NOTES TO FINANCIAL STATEMENTS--Continued

### MARQUETTE COUNTY TRANSIT AUTHORITY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographical boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

#### Description of Funds

The Marquette County Transit Authority is considered to be an independent agency of the County of Marquette for accounting purposes. This Enterprise Fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### Government-Wide Financial Statements

The Authority's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide statements categorize primary activities as either governmental or business-type. The Authority's activities are classified as business-type activities.

In the government-wide Statements of Net Assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Authority's net assets are reported in three parts; invested in capital assets, net of related debt; restricted assets; and unrestricted net assets.

## NOTES TO FINANCIAL STATEMENTS--Continued

### **MARQUETTE COUNTY TRANSIT AUTHORITY**

#### **NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued**

##### Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The business-type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

##### Budget

The Authority follows these procedures in establishing budgetary data:

- a) Authority administration prepares and submits to the Authority Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenses, and the means of financing them, and is stated on a basis consistent with GAAP.
- b) The Authority Board formally adopts the finalized operating budget at a normal public meeting held prior to the commencement of the fiscal year.
- c) Authority administration is authorized to transfer budgeted amounts between line items within departmental budgets with post-transfer Authority Board approval.
- d) Formal budgetary integration is employed as a management control device during the year.
- e) Budgetary authority lapses at year-end.
- f) The Authority Board has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur, and the amount of the deviation can be determined. Once originally adopted, the budget is adjusted quarterly as necessary.

##### Cash and Equivalents

For the purposes of the Statement of Cash Flows, the Authority considers cash on hand, demand deposits, and time deposits as components of cash.

## NOTES TO FINANCIAL STATEMENTS--Continued

### MARQUETTE COUNTY TRANSIT AUTHORITY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

##### Receivables

Revenues earned, but not yet received, as of the fiscal year end are recorded as a receivable on the Authority's balance sheet. A provision for doubtful accounts is not necessary because all significant amounts are collected within two months of the balance sheet date or are due from other governmental units.

##### Inventory

The Authority utilizes a perpetual inventory system for replacement parts accounted for by the consumption method and valued at the lower of cost or market.

##### Capital Assets and Depreciation

Capital assets are stated at original cost at the date of acquisition, if purchased, or at fair market value at the date of donation. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and improvements, when significant in amount, are capitalized. Provisions for depreciation are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives in accordance with guidelines provided by the Michigan Department of Transportation (MDOT). Depreciation of assets acquired with capital grant funds, which is the majority of capital assets, is charged against contributed capital accounts in the balance sheet.

Depreciation of all exhaustible capital assets used by the Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. The estimated useful lives are as follows:

Building	30 years
Bus Shelters & Signs	4-10 years
Equipment	4-10 years
Buses	4-10 years

##### Grants

Revenue from the federal government and state of Michigan operating grants are recorded as earned when expenses are incurred. Adjustments made to the operating grants by MDOT are recognized in the year they become measurable. The unearned portion of grant contracts received, if any, are reported as deferred revenue until such time as expenses are incurred.

## NOTES TO FINANCIAL STATEMENTS--Continued

### MARQUETTE COUNTY TRANSIT AUTHORITY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Capital grants are reported as additions to contributed capital accounts on the balance sheet when qualifying expenses are incurred. The unexpended portions of capital grant contracts, if any, are reported as a liability to the issuing grantor, except for those amounts that are contractually obligated but not expended.

##### Unearned Revenue

The Authority's sales of fare tickets are recorded as unearned revenue until the tickets are redeemed in exchange for transportation services.

##### Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulations.

##### Comparative Data

Summaries of comparative data for prior years have been presented in the accompanying financial statements to provide an understanding of changes in the Authority's financial position, results of operations, and cash flows.

#### NOTE B--CASH AND INVESTMENTS

The cash on the balance sheet can also be summarized into the following categories:

Cash in demand accounts	\$1,754,708
Cash on hand	<u>1,570</u>
	<u><u>\$1,756,278</u></u>

## NOTES TO FINANCIAL STATEMENTS--Continued

### MARQUETTE COUNTY TRANSIT AUTHORITY

#### NOTE B--CASH AND INVESTMENTS--Continued

The total deposits of the Marquette County Transit Authority held in financial institutions at September 30, 2004, are \$1,761,371, of which \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) under FDIC Regulation 330.8. The remaining balance of \$1,661,371 was uninsured and uncollateralized. This regulation, in summary, provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 for both demand deposits and time deposits in every financial institution, that is not a branch location, that is a member of the FDIC.

#### Investments

The Authority's investments are categorized below to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are insured or registered or for which investments are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Authority's name. The remaining investments are not categorized as they represent participation shares in money market funds.

<u>Investment Type</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total Carrying Amount</u>	<u>Total Market Value</u>
Risk-categorized	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>		
Non-categorized investments:					
Governmental Money Market					
Mutual Fund				<u>\$ 18,759</u>	<u>\$ 18,759</u>
<b>TOTAL INVESTMENTS</b>				<u><u>\$ 18,759</u></u>	<u><u>\$ 18,759</u></u>

#### Statutory Authority

Act 196, PA 1997, authorizes the Authority to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the state of Michigan under a law or rule of this state or the United States.

NOTES TO FINANCIAL STATEMENTS--Continued

**MARQUETTE COUNTY TRANSIT AUTHORITY**

**NOTE B--CASH AND INVESTMENTS--Continued**

3. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

The Authority's investments are in accordance with statutory authority.

**NOTE C--DUE FROM MICHIGAN DEPARTMENT OF TRANSPORTATION**

A summary of amounts due from Michigan Department of Transportation (MDOT) as of September 30, 2004, is as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Operating Assistance Grant Contract #2002-0064/Z11		\$ 2,193	\$ 2,193
Capital Assistance Grant Contract #2002-0064/Z15		236,000	236,000
Capital Assistance Grant Contract #2002-0064/Z16		9,520	9,520
RTAP	<u>\$ 636</u>	<u>          </u>	<u>636</u>
AMOUNT RECEIVABLE FROM MDOT			
AT SEPTEMBER 30, 2004	<u>\$ 636</u>	<u>\$247,713</u>	<u>\$ 248,349</u>

NOTES TO FINANCIAL STATEMENTS--Continued

**MARQUETTE COUNTY TRANSIT AUTHORITY**

**NOTE D--CAPITAL ASSETS**

A summary of capital assets is as follows:

	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Purchased with Authority funds				
Land	\$ 21,000			\$ 21,000
Buildings	173,298	\$ 414,651		587,949
Bus shelters and signs	3,486			3,486
Vehicles	55,268	1,057		56,325
Other equipment	35,205			35,205
	<u>288,257</u>	<u>415,708</u>	<u>\$ 0</u>	<u>703,965</u>
Accumulated depreciation	<u>(143,401)</u>	<u>(14,445)</u>		<u>(157,846)</u>
Net purchased with Authority funds	<u>144,856</u>	<u>401,263</u>	<u>0</u>	<u>546,119</u>
Purchased with capital grants				
Land	248,754			248,754
Land improvements	30,891			30,891
Buildings	471,621	3,403,361		3,874,982
Bus shelters and signs	24,376			24,376
Vehicles	2,338,150	62,846		2,400,996
Other equipment	173,269	13,551	(6,525)	180,295
	<u>3,287,061</u>	<u>3,479,758</u>	<u>(6,525)</u>	<u>6,760,294</u>
Accumulated depreciation	<u>(1,652,382)</u>	<u>(294,308)</u>	<u>4,241</u>	<u>(1,942,449)</u>
Net purchased with capital grants	<u>1,634,679</u>	<u>3,185,450</u>	<u>(2,284)</u>	<u>4,817,845</u>
NET CAPITAL ASSETS	<u>\$ 1,779,535</u>	<u>\$ 3,586,713</u>	<u>\$ (2,284)</u>	<u>\$ 5,363,965</u>

When federal or state funded assets are taken out of public transportation service, the disposition of the assets is determined by MDOT.

NOTES TO FINANCIAL STATEMENTS--Continued

**MARQUETTE COUNTY TRANSIT AUTHORITY**

**NOTE E--COMPENSATED ABSENCES**

Employees earn sick leave at the rate of one (1) day per month, not to exceed twelve (12) days per year. Upon retirement or termination, employees in good standing with at least ten (10) years of service, will be paid one-half (1/2) of such sick leave accumulated at that time at their current rate of pay. Non-union employees with service dates beginning after July 1, 1983, can accumulate unlimited sick leave, with a maximum payment of one hundred twenty (120) days; however, non-union employees with service dates beginning before July 1, 1983, can accumulate and can receive payment on an unlimited amount of sick leave. Union employees may accumulate sick leave to a maximum of one hundred twenty (120) days with payment upon retirement or death at one-half (1/2) of the time accumulated at their current rate of pay. Once each year, employees may elect to sell back to the Authority any amount of accrued sick leave in excess of twenty days. Employees earn vacation leave based upon hours worked during the year and length of employment. Upon retirement or termination, employees are paid for all such outstanding days accumulated at their current rate of pay, with a maximum accumulation of thirty (30) days.

**NOTE F--LONG-TERM DEBT**

The Authority entered into a general loan contract with MDOT on September 16, 1999, for the purchase of a maintenance and operational facility in Ishpeming, Michigan. The loan is payable in annual installments of \$16,644 for ten years at a fixed interest rate of four percent. A summary of the changes in long-term debt as of September 30, 2004, is as follows:

Balance at September 30, 2003	\$ 87,253
Less principal payments	<u>13,154</u>
Balance at September 30, 2004	<u><u>\$ 74,099</u></u>

The schedule of annual principal and interest payments for the next five years and thereafter is as follows:

Year	Principal	Interest	Total
2005	\$ 13,680	\$ 2,964	\$ 16,644
2006	14,227	2,417	16,644
2007	14,797	1,847	16,644
2008	15,388	1,256	16,644
2009	<u>16,007</u>	<u>640</u>	<u>16,647</u>
TOTALS	<u><u>\$ 74,099</u></u>	<u><u>\$ 9,124</u></u>	<u><u>\$ 83,223</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

**MARQUETTE COUNTY TRANSIT AUTHORITY**

**NOTE F--LONG-TERM DEBT--Continued**

The Authority entered into a general loan contract with MDOT on August 27, 2004, for transportation infrastructure improvements of the Marquette County Transit Facility project in Marquette, Michigan. The loan is payable on or before August 27, 2007, including interest at a rate of 3 percent. A summary of the changes in long-term debt as of September 30, 2004, is as follows:

Balance at September 30, 2003	\$ 0
Loan funds received	1,700,000
Less principal payments	<u>0</u>
Balance at September 30, 2004	<u><u>\$ 1,700,000</u></u>

The schedule of annual principal and interest payments for the life of the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 0	\$ 0	\$ 0
2006	0	0	0
2007	<u>1,700,000</u>	<u>106,636</u>	<u>1,806,636</u>
TOTALS	<u><u>\$ 1,700,000</u></u>	<u><u>\$ 106,636</u></u>	<u><u>\$ 1,806,636</u></u>

The following is a summary of long-term debt activity for the year ended September 30, 2004:

	<u>September 30, 2003</u>	<u>Additions</u>	<u>Payments</u>	<u>September 30, 2004</u>
Ishpeming Facility Loan	\$ 87,253		\$(13,154)	\$ 74,099
Marquette Facility Loan	<u>0</u>	<u>\$1,700,000</u>	<u>0</u>	<u>1,700,000</u>
TOTAL LONG-TERM DEBT	<u><u>\$ 87,253</u></u>	<u><u>\$1,700,000</u></u>	<u><u>\$(13,154)</u></u>	<u><u>\$ 1,774,099</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

**MARQUETTE COUNTY TRANSIT AUTHORITY**

**NOTE G--SCHEDULE OF CONTRIBUTED CAPITAL**

	<u>Federal and State</u>	<u>Local</u>	<u>Total</u>
Balance at September 30, 2003	\$ 1,626,087	\$ 6,308	\$ 1,632,395
Add--Grants received	3,479,758		3,479,758
Less--Depreciation charged on assets acquired with contributed funds	<u>(288,000)</u>	<u>(6,308)</u>	<u>(294,308)</u>
Balance at September 30, 2004	<u>\$ 4,817,845</u>	<u>\$ 0</u>	<u>\$ 4,817,845</u>

**NOTE H--COUNTY OF MARQUETTE SUBSIDY**

The County of Marquette contributed \$626,892 to the Authority from a millage allocation for the year ended September 30, 2004.

**NOTE I--COST ALLOCATION PLANS**

The Authority has cost allocation plans for all allocated costs, which have been followed in the preparation of financial statements. The Bus Transit Division of MDOT has approved these plans.

**NOTE J--DEFINED BENEFIT PENSION PLAN**

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System ("System" or "MERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for Michigan municipal employees. MERS issues a publicly available financial report that includes the financial statements and required supplementary information for the entire System. The report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

All full-time employees of the Authority are eligible to participate in the System. Benefits vest after eight years of service. Bargaining unit employees who retire at or after the age of 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 1.2 percent times the first \$4,200 of a member's final average compensation, plus 1.7 percent times the portion of final average compensation over \$4,200. Final Average Compensation (FAC) is the average of a member's monthly pay during the period of 60 consecutive months of credited service producing the highest monthly average. Administrative employees are entitled to 2.25 percent of FAC times the years of service.

## NOTES TO FINANCIAL STATEMENTS--Continued

### **MARQUETTE COUNTY TRANSIT AUTHORITY**

#### **NOTE J--DEFINED BENEFIT PENSION PLAN--Continued**

The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and the Authority's Board of Directors.

Active employees with eight or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service-connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly ten years of credited service, if their actual acquired credited service is less than ten years.

If an active employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100 percent joint and survivor) election. If there is no named beneficiary and the member leaves a spouse, the surviving spouse will receive an allowance equal to 85 percent of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Authority employees who are members of the bargaining unit are required to contribute four percent of their annual compensation to the System. Full-time employees who are not members of the bargaining unit are not required to contribute to the System. The Authority is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

#### Funding Status and Progress

The amount shown below as the "actuarial accrued liability" represents the difference between the present value of all future benefits and the present value of future normal costs. The unfunded actuarial accrued liability, which represents the actuarial accrued liability less assets accumulated, is then amortized over a period of thirty years. The measure over time is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans.

Under the entry age normal cost method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability less the accelerated funding credits, if any.

## NOTES TO FINANCIAL STATEMENTS--Continued

### MARQUETTE COUNTY TRANSIT AUTHORITY

#### NOTE J--DEFINED BENEFIT PENSION PLAN--Continued

At December 31, 2003, the unfunded actuarial accrued liability was \$221,659 determined as follows:

Actuarial accrued liability:

Retirees and beneficiaries currently receiving benefits	\$ 137,122
Terminated employees not yet receiving benefits	26,773
Pending refunds for non-vested terminated employees	1,081
Current employees:	
Accumulated employee contributions including allocated investment earnings	346,324
Employer financed	1,148,877

TOTAL ACTUARIAL ACCRUED LIABILITY 1,660,177

Net assets available for benefits, at actuarial value (market value--\$1,313,522) 1,438,518

UNFUNDED ACTUARIAL ACCRUED LIABILITY \$ 221,659

#### Actuarially Determined Contributions Required and Contributions Made

Periodic employer contributions are determined on an actuarial basis using the entry age normal cost method. Normal cost is funded on a current basis whereas the unfunded actuarial accrued liability is funded over a thirty-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The actuarial assumptions used include (a) a rate of return on the investment of 8 percent per year for present and future assets, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases based upon seniority and merit.

The Authority's payroll for employees covered by the System for the years ended September 30, 2004, 2003, and 2002, was \$750,453; \$729,300; and \$745,227. The Authority's total payroll for the past three years was \$1,328,921; \$1,311,711; and \$1,317,903.

Total contributions to the pension plan in the year ended September 30, 2004, amounted to \$73,483, of which \$51,466 and \$22,017 were made by the Authority and its employees, respectively. The contributed amounts were actuarially determined based on an actuarial valuation as of December 31, 2003. Contributions made by the Authority and its employees represent 6.86 percent and 2.93 percent, respectively, of covered payroll for the year.

#### Analysis of Funding Progress

For the three years ending 2001, 2002, and 2003, available assets were sufficient to fund 85, 83, and 87 percent, respectively, of the actuarial accrued liability. Unfunded (assets less than) accrued liabilities represented 27, 34, and 30 percent of the annual payroll for employees covered by MERS for 2001, 2002, and 2003, respectively.

## NOTES TO FINANCIAL STATEMENTS--Continued

### **MARQUETTE COUNTY TRANSIT AUTHORITY**

#### **NOTE K--COMMITMENTS**

The Authority previously leased garage and office space in the Marquette Transportation Center from the City of Marquette. The operating lease was for the term of October 1, 1986 to September 30, 2006. This lease was terminated between the two parties effective September 30, 2004. The Marquette Transportation Center is currently being used as a transfer point for the bus routes, however the Authority is no longer responsible for any costs associated with this building.

#### **NOTE L--NET ASSETS**

The Authority has elected to internally designate \$4,945 of its net assets for the replacement of the trolley. In the government-wide financial statements, this amount is included in unrestricted net assets since there is no external legal authority or requirement to restrict this amount.

In addition, the Authority's balance sheet reflects a deficit of \$541,999 in unrestricted net assets as of September 30, 2004.

#### **NOTE M--RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority was unable to obtain vehicle and general liability insurance at a cost it considered to be economically justifiable. The Authority joined other transit authorities in the Michigan Transit Pool Direct Property Damage Trust Fund and Liability Trust Fund. These funds operate as a common risk management and insurance program. The Authority makes annual contributions to the pool for its vehicle and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member contributions. The Direct Property Damage Trust Fund will re-insure through commercial companies for claims in excess of \$50,000 for each insured event. The liability declaration agreement reduces its exposure to large losses to \$2,000,000 per occurrence. An excess policy provides an additional \$4,000,000 in coverage.

The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTES TO FINANCIAL STATEMENTS--Continued

### **MARQUETTE COUNTY TRANSIT AUTHORITY**

#### **NOTE N--BENEFIT PLANS**

The Authority has adopted a Medical Care Expense Plan created in accordance with Internal Revenue Service Code Sections 105, 125, and 129. The Authority does not make any contributions to the plan; however, voluntary contributions made by qualified plan participants administered by the American Family Life Assurance Company totaled \$10,658 for the year ended September 30, 2004.

The Authority also belongs to a Deferred Compensation Plan created in accordance with Internal Revenue Service Code Section 457. The Authority does not make any contributions to the plan; however, voluntary contributions made by qualified participants to the plan administered by Variable Annuity Life Insurance Company totaled \$24,841 for the year ended September 30, 2004.

The Authority adopted a defined contribution plan for administration employees hired after June 1, 1999, which are eligible for MERS membership. The employer is required to contribute 12.00 percent of each participant's annual earnings. Employees may make voluntary, after-tax contributions subject to the limitations of section 415 of the Internal Revenue Code, but no employee contributions are required. Employer contributions are vested after one year of service. Employer contributions for the governmental money purchase plan administered by the ICMA Retirement Corporation for the year ended September 30, 2004, were \$3,738. No employee contributions were made during the year.

STATEMENTS OF OPERATING REVENUES  
(Schedule 1)

**MARQUETTE COUNTY TRANSIT AUTHORITY**

	Year Ended September 30		
	2004	2003	2002
OPERATING REVENUES			
Linehaul (farebox)	\$ 85,316	\$ 83,028	\$ 80,367
Demand--response (farebox)	65,868	65,988	66,564
Special contract fares	122,132	110,440	131,160
Charter services	24,076	15,537	22,762
Freight	906	1,000	1,058
Contract adjustments	(18,214)	(149)	48,203
	<u>(18,214)</u>	<u>(149)</u>	<u>48,203</u>
TOTAL OPERATING REVENUES	<u>\$ 280,084</u>	<u>\$ 275,844</u>	<u>\$ 350,114</u>

STATEMENTS OF OPERATING EXPENSES  
(Schedule 2)

**MARQUETTE COUNTY TRANSIT AUTHORITY**

				Year Ended September 30		
				2004	2003	2002
	Operations	Maintenance	Administration	Total system		
LABOR						
Operators' wages	\$ 808,110			\$ 808,110	\$ 793,702	\$ 848,455
Other salaries and wages	9,113	\$ 163,016	\$ 228,620	400,749	392,162	375,135
Dispatchers' wages and salaries	92,800			92,800	99,732	96,485
FRINGE BENEFITS	311,612	72,852	116,675	501,139	481,313	433,125
SERVICES--OTHER	13,500	55,555	4,900	73,955	60,065	52,747
MATERIALS AND SUPPLIES CONSUMED						
Fuel and lubricants	141,602			141,602	138,659	127,270
Tires and tubes	22,642			22,642	18,456	21,987
Other materials and supplies	35,026	135,863	13,542	184,431	187,123	184,594
UTILITIES		2,575	6,577	9,152	12,521	10,934
CASUALTY AND LIABILITY COSTS						
Premiums for public liability and property damage insurance	84,555		5,167	89,722	122,706	56,240
MISCELLANEOUS						
Advertising/promotion, media			12,416	12,416	11,223	17,143
Other	8,509		30,431	38,940	41,910	42,036
LOAN INTEREST	8,297		570	8,867	3,996	4,482
LEASES AND RENTALS	81,994			81,994	84,265	78,689
DEPRECIATION	308,753			308,753	323,365	281,629
TOTAL OPERATING EXPENSES	<u>\$ 1,926,513</u>	<u>\$ 429,861</u>	<u>\$ 418,898</u>	<u>\$ 2,775,272</u>	<u>\$ 2,771,198</u>	<u>\$ 2,630,951</u>

STATEMENTS OF NON-OPERATING REVENUES--LOCAL  
(Schedule 3a)

**MARQUETTE COUNTY TRANSIT AUTHORITY**

	Year Ended September 30		
	2004	2003	2002
Local operating millage--County of Marquette	\$ 626,892	\$ 596,938	\$ 571,591
Interest income	2,643	2,457	5,639
MTC administration fee	6,163	6,364	6,081
Inter-city ticket commissions	16,158	19,383	18,996
Advertising	2,400	25	805
Miscellaneous	620	1,265	14,980
	<u>620</u>	<u>1,265</u>	<u>14,980</u>
TOTAL NON-OPERATING REVENUES--LOCAL	<u>\$ 654,876</u>	<u>\$ 626,432</u>	<u>\$ 618,092</u>

STATEMENTS OF NON-OPERATING REVENUES--STATE AND FEDERAL  
(Schedule 3b)

**MARQUETTE COUNTY TRANSIT AUTHORITY**

	Year Ended September 30		
	2004	2003	2002
STATE OF MICHIGAN NON-OPERATING GRANTS			
Local Bus Operating Assistance	\$ 997,765	\$ 1,022,395	\$ 1,018,779
Specialized Services	53,874	50,545	54,579
Project Zero			17,619
Administration of Capital Grant		1,193	460
Vehicle Rehab		17,408	
TOTAL STATE OF MICHIGAN NON-OPERATING REVENUES	<u>1,051,639</u>	<u>1,091,541</u>	<u>1,091,437</u>
FEDERAL NON-OPERATING GRANTS			
U.S. Department of Transportation Operating Assistance	258,674	255,598	243,295
Administration of Capital Grant			1,839
RTAP	2,172	1,333	3,500
TOTAL FEDERAL NON-OPERATING REVENUES	<u>260,846</u>	<u>256,931</u>	<u>248,634</u>
TOTAL NON-OPERATING REVENUES--STATE AND FEDERAL	<u><u>\$ 1,312,485</u></u>	<u><u>\$ 1,348,472</u></u>	<u><u>\$ 1,340,071</u></u>

STATEMENT OF ELIGIBLE EXPENSES BY CONTRACT AND GENERAL OPERATIONS  
(Schedule 4)

**MARQUETTE COUNTY TRANSIT AUTHORITY**

Year Ended September 30, 2004

	Specialized Services	General Operations	Total
Labor	\$ 46,290	\$ 1,266,229	\$ 1,312,519
Fringe benefits	17,821	483,318	501,139
Services	2,630	81,902	84,532
Material and supplies	12,399	336,275	348,674
Utilities	326	8,826	9,152
Casualty and liability costs	3,191	86,531	89,722
Miscellaneous	1,826	30,464	32,290
Loan interest	125	6,372	6,497
Leases and rentals	2,916	79,078	81,994
Depreciation	476	308,277	308,753
TOTAL OPERATING EXPENSES	88,000	2,687,272	2,775,272
Less ineligible expenses		329,133	329,133
TOTAL ELIGIBLE EXPENSES	<u>\$ 88,000</u>	<u>\$ 2,358,139</u>	<u>\$ 2,446,139</u>

# NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

## MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2004

	Federal Section 18 2002-0064/Z3 10/01/03-09/30/04	State Operating Assistance 10/01/03-09/30/04
<b>EXPENSES</b>		
Labor	\$ 1,266,229	\$ 1,266,229
Fringe benefits	483,318	483,318
Services	81,902	81,902
Materials and supplies	336,275	336,275
Utilities	8,826	8,826
Casualty and liability costs	86,531	86,531
Miscellaneous	30,464	30,464
Loan interest	6,372	6,372
Leases and rentals	79,078	79,078
Depreciation	308,277	308,277
<b>TOTAL EXPENSES</b>	<b>2,687,272</b>	<b>2,687,272</b>
<b>LESS INELIGIBLE EXPENSES</b>		
Depreciation	294,308	294,308
Charter expenses	8,928	8,928
MTC administration fee	6,163	6,163
Miscellaneous revenue	3,020	3,020
Ineligible state contracts	10,577	10,577
Freight revenue	915	915
Interest expense	2,859	2,859
RTAP	2,172	2,172
MPTA dues	191	191
<b>TOTAL INELIGIBLE EXPENSES</b>	<b>329,133</b>	<b>329,133</b>
<b>NET ELIGIBLE EXPENSES</b>	<b>\$ 2,358,139</b>	<b>\$ 2,358,139</b>

### MAXIMUM SECTION 18 REIMBURSEMENT

The lesser of 10.95% of net eligible  
expenses--\$258,216 or contract  
award--\$279,849

\$ 258,216

### MAXIMUM LOCAL BUS OPERATING ASSISTANCE (ACT 51)

The lesser of 42.236619648% of net eligible  
expenses--\$995,998 or state operating  
assistance budget cap--\$1,107,396

\$ 995,998



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Marquette County Transit Authority  
Marquette, Michigan

We have audited the financial statements of the Marquette County Transit Authority as of and for the year ended September 30, 2004, and have issued our report thereon dated December 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette County Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marquette County Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Board of Directors

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Makela, Toubant, Hill & Nardi, P.C.*

December 22, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Marquette County Transit Authority  
Marquette, Michigan

Compliance

We have audited the compliance of the Marquette County Transit Authority, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. Marquette County Transit Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Marquette County Transit Authority's management. Our responsibility is to express an opinion on Marquette County Transit Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marquette County Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Marquette County Transit Authority's compliance with those requirements.

In our opinion, Marquette County Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended September 30, 2004.

Internal Control Over Compliance

The management of Marquette County Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we



## Board of Directors

considered Marquette County Transit Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Makela, Poutant, Hill & Nardi, P.C.*

December 22, 2004

SCHEDULE OF FEDERAL AND STATE FINANCIAL AWARDS

**MARQUETTE COUNTY TRANSIT AUTHORITY**

Year Ended September 30, 2004

Program Title	Federal CFDA Number	State Grantor Number	Program Award or Amount	Federal Receipts/ Revenue	State Receipts/ Revenue	Disbursements/ Expenditures	Grant Amount Remaining
U.S. Department of Transportation							
Passed through MDOT:							
Capital Assistance - Section 5311	20.509	2002-0064/Z4	\$ 108,000	\$ 49,154	\$ 12,289	\$ 61,443	\$ 748
Capital Assistance - Section 5309	20.500	2002-0064/Z5	1,237,536	561,869	140,467	702,336	
Capital Assistance - Section 5309	20.500	2002-0064/Z9	2,459,196	1,967,357	491,839	2,459,196	
Capital Assistance - Section 5311	20.509	2002-0064/Z10	100,000	10,566	2,641	13,207	86,793
Capital Assistance - Section 5309	20.500	2002-0064/Z12	1,227,825				1,227,825
Capital Assistance - Section 5311	20.500	2002-0064/Z14	85,000				85,000
Capital Assistance - Intercity		2002-0064/Z15	236,000		236,000	236,000	
Capital Assistance - Bus Rehab		2002-0064/Z16	10,585			9,520	
				2,588,946	883,236		
September 30, 2003 Accrual				(260,012)	(65,003)		
September 30, 2004 Accrual					247,713		
			TOTAL CAPITAL ASSISTANCE	\$ 2,328,934	\$ 1,065,946	\$ 3,481,702	\$ 1,400,366
U.S. Department of Transportation							
Passed through MDOT:							
Operating Expenses							
Operating Assistance - Section 5311	20.509	2002-0064-Z13	\$ 259,613	\$ 258,674		\$ 258,674	\$ 939
RTAP	N/A	N/A	2,172	2,172		2,172	
Michigan Department of Transportation:							
Operating Assistance	N/A	N/A	1,058,262		\$ 997,765	997,765	60,497
Specialized Services	N/A	2002-0064/Z11	54,579		53,875	53,875	704
				260,846	1,051,640		
September 30, 2003 Accrual				(10,099)			
September 30, 2004 Accrual				391	2,438		
			TOTAL OPERATING ASSISTANCE	\$ 251,138	\$ 1,054,078	\$ 1,312,486	\$ 62,140
			TOTAL FEDERAL AND STATE FINANCIAL AWARDS	\$ 2,580,072	\$ 2,120,024	\$ 4,794,188	\$ 1,462,506

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS/INELIGIBLE EXPENSES

### MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2004

The following summarized the results of the auditing procedures:

- (1) An unqualified opinion was issued on the financial statements.
- (2) The audit did not disclose any noncompliance that is material to the financial statements.
- (3) An unqualified opinion was issued on compliance for major programs.
- (4) The audit did not disclose any findings related to major programs.
- (5) The major program was Federal Transit--Capital Investment Grant (CFDA# 20.500).
- (6) \$300,000 was used as the threshold to distinguish between Type A and Type B programs.
- (7) Marquette County Transit Authority does qualify as a low-risk auditee.

The following schedule summarizes those expenses, which are not eligible for reimbursement under the federal and state operating assistance grant formulas:

	<u>Ineligible Expenses/Questioned Costs</u>	
	<u>Federal Section 18 Per OMB Circular A-87</u>	<u>State Operating Assistance Per Revenue and Expense Manual</u>
Urban Mass Transportation Administration:		
A: Operating grants:		
1. Depreciation: Depreciation on contributed capital is an ineligible expense.	\$ 294,308	\$ 294,308
2. Charter expenses: Expenses pertaining to charter services are ineligible.	8,928	8,928
3. Administration fee: Expenses for transportation center administration reimbursed by local government are ineligible.	6,163	6,163
4. Miscellaneous revenue: Refunds of expenses reduce eligible costs.	13,597	13,597
5. Freight revenue: Expenses pertaining to freight services are ineligible.	915	915
6. Interest expense: Interest expense on the state infrastructure loan is ineligible.	2,859	2,859
7. RTAP: Amount is ineligible	2,172	2,172
8. Miscellaneous expenses: A percentage of dues paid to MPTA are ineligible.	191	191

REPORT ON PRIOR YEAR AUDIT FINDINGS

**MARQUETTE COUNTY TRANSIT AUTHORITY**

Year Ended September 30, 2004

There were no audit findings for the year ended September 30, 2003.

MILEAGE DATA (Unaudited)

**MARQUETTE COUNTY TRANSIT AUTHORITY**

Year Ended September 30, 2004

	Public Transit Mileage	Special Services Mileage	Charter Mileage	Total Mileage
Linehaul:				
1 <sup>st</sup> Quarter	154,559	N/A	N/A	154,559
2 <sup>nd</sup> Quarter	153,679	N/A	N/A	153,679
3 <sup>rd</sup> Quarter	152,370	N/A	N/A	152,370
4 <sup>th</sup> Quarter	159,882	N/A	N/A	159,882
TOTAL LINEHAUL	620,490			620,490
Demand Response:				
1 <sup>st</sup> Quarter	74,431	11,976	101	86,508
2 <sup>nd</sup> Quarter	75,823	11,443	312	87,578
3 <sup>rd</sup> Quarter	74,203	12,835	238	87,276
4 <sup>th</sup> Quarter	73,650	14,319	1,255	89,224
TOTAL DEMAND RESPONSE	298,107	50,573	1,906	350,586
TOTAL OPERATION	918,597	50,573	1,906	971,076

# VEHICLE HOURS AND PASSENGER DATA (Unaudited)

## MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2004

	Public Transit Hours	Regular Passengers	Sr. Citizen Passengers	Senior/ Handicap Passengers	Handicap Passengers	Total Passengers
Linehaul:						
1 <sup>st</sup> Quarter	6,915	49,917	N/A	N/A	N/A	49,917
2 <sup>nd</sup> Quarter	6,963	50,621	N/A	N/A	N/A	50,621
3 <sup>rd</sup> Quarter	6,883	51,788	N/A	N/A	N/A	51,788
4 <sup>th</sup> Quarter	7,225	53,008	N/A	N/A	N/A	53,008
TOTAL LINEHAUL	27,986	205,334				205,334
Demand Response:						
1 <sup>st</sup> Quarter	5,717	9,324	2,138	2,807	9,859	24,128
2 <sup>nd</sup> Quarter	5,783	14,573	2,531	2,600	6,619	26,323
3 <sup>rd</sup> Quarter	5,587	6,017	2,315	3,234	6,266	17,832
4 <sup>th</sup> Quarter	5,818	9,209	2,328	2,880	7,581	21,998
TOTAL DEMAND RESPONSE	22,905	39,123	9,312	11,521	30,325	90,281
TOTAL OPERATION	50,891	244,457	9,312	11,521	30,325	295,615

The Authority does not maintain a breakdown between senior and handicapped passengers for linehaul transportation; therefore, all riders are categorized as regular passengers.